

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 5763

EXDIS

E.O. 11652: GDS

TAGS: OVIP, (ROBINSON, CHARLES A), ENRG, TECH, EMIN, BR,
US

SUBJECT: UNDER SECRETARY ROBINSON'S CONSULTATIONS IN BRAZIL:
PART B-MEETING WITH MINES AND ENERGY MINISTER UEKI

REF: BRASILIA 5761

PART B: MEETING WITH MINES AND ENERGY MINISTER UEKI

1. THE MEETING WITH MINISTER OF MINES AND ENERGY
COVERED OIL, NUCLEAR ENERGY, AND US OPERATIONS IN THE
MINERALS SECTOR.

2. ON OIL, UEKI, WHILE OPTIMISTIC ABOUT BRAZIL'S
MEDIUM-AND LONG-TERM PROSPECTS FOR REDUCING DEPENDENCE
ON IMPORTS, WAS UNEASY AND PREOCCUPIED WITH THE POSSIBLE MAGNI-
TITUDE OF THIS FALL'S PROSPECTIVE PRICE INCREASES.
THE UNDER SECRETARY REPORTED ON HIS CONVERSATIONS
WITH THE SHAH AND PRINCE FAHD AND GAVE HIS ESTI-
MATE OF A PRICE INCREASE ON THE ORDER OF \$1 A BARREL
ON OCTOBER 1. UEKI FELT THAT THE WORLD ECONOMY
WOULD ABSORB AN INCREASE ON THIS ORDER OF MAGNITUDE
--SUCH AN INCREASE WOULD BE LESS THAN THE EFFEC-
TIVE REDUCTION OF PRICES SINCE LAST YEAR; BUT EVEN
THIS WOULD MEAN FOR BRAZIL A FURTHER \$300 MILLION
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INCREASE IN A \$3 BILLION FUEL BILL. WHILE ENCOURAGED

BY THE UNDER SECRETARY'S REPORT, HIS CONCERN WAS THAT THE PRICE INCREASE WOULD BE HIGHER--BECAUSE OF THE ONSET OF WINTER, THE BEGINNING RECUPERATION OF THE WORLD ECONOMY, AND THE RESULTING RISE IN WORLD PETROLEUM DEMAND.

3. UEKI SAID THE PROBLEM WAS COMPLEX AND, ULTIMATELY, IN US HANDS. HE AGREED ON THE IMPORTANCE OF THE US INITIATIVES IN MAINTAINING A CLIMATE CONDUCTIVE TO PRODUCER MODERATION. THE UNDER SECRETARY ASKED FOR UNDERSTANDING AND SUPPORT FOR US EFFORTS IN MAINTAINING THE CONSUMER-PRODUCER DIALOGUE, AND UEKI CONCURRED THAT CHANNELS OF COMMUNICATION SHOULD BE MAINTAINED BETWEEN THE US AND BRAZIL IN THIS AREA.

4. ON NUCLEAR ENERGY, UEKI STRESSED THE ROLE OF THE REACTOR PROGRAM IN PROVIDING BRAZIL WITH A MIXED ELECTRIC POWER SYSTEM, GIVEN THE VERY GREAT SEASONAL VARIATIONS IN THE CAPACITY OF THE HYDROELECTRIC INSTALLATIONS. THE OBJECTIVE OF THE PROGRAM, BY THE END OF THE 1980'S, WOULD BE A RATIO OF 85 - 15 FOR HYDRO-AND NUCLEAR POWER IN THE GENERATION OF ELECTRICITY.

5. UEKI LAID GREAT STRESS ON THE ENORMOUS GROWTH IN POWER REQUIREMENTS ASSOCIATED WITH BRAZIL'S DEVELOPMENT. BRAZIL'S NUCLEAR PROGRAM SHOULD BE DESCRIBED AS REALISTIC, RATHER THAN AMBITIOUS. HE NOTED THE PROSPECTIVE GLOBAL SHORTAGES IN URANIUM IN RELATION TO NUCLEAR POWER PROJECTS NOW UNDER WAY, AND BRAZIL'S RESPONSIBILITY TO DO WHAT IT COULD TO MEET ITS NEEDS AND, ULTIMATELY, DEVELOP A POSITION AS AN EXPORTER. THE SITUATION IN URANIUM, BEFORE THE END OF THE 1980'S, WOULD BE WORSE THAN IN OIL TODAY, AND HE IMPLIED THERE MIGHT BE A STEEP RISE IN URANIUM PRICES. THIS PROSPECT RAISED SERIOUS QUESTIONS ABOUT THE WHOLE FUTURE OF THE NUCLEAR ENERGY PROGRAM, AT LEAST IN THE MEDIUM TERM, UNTIL THE HTGR AND FAST BREEDER REACTOR WOULD BE AVAILABLE FOR GENERAL USE. THIS WAS THE REASON FOR THE IMPORTANCE ATTACHED BY BRAZIL TO THE ACQUISITION OF

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ENRICHMENT CAPACITY.

6. UEKI TENDED TO PLAY DOWN THE IMPORTANCE OF THE FRG-BRAZILIAN NUCLEAR ACCORD. THE GERMAN AGREEMENT WAS "NOT SO GREAT," GIVEN THE PROGRESS OF NUCLEAR TECHNOLOGY. HE RECALLED THAT BRAZIL INITIALLY HAD NEGOTIATED WITH US INDUSTRY FOR A DEAL FOR THE DEVELOPMENT OF A NUCLEAR

REACTOR INDUSTRY IN BRAZIL. HE WISHED TO AVOID WHAT HAD HAPPENED WITH TURBINES FOR HYDRO-ELECTRIC INSTALLATIONS: AFTER SOME 25 YEARS OF DOMESTIC PRODUCTION, BRAZIL WAS STILL IN THE "SHAMEFUL" POSITION OF HAVING TO IMPORT MOST OF THE COMPONENTS, EVEN THOUGH BRAZILIAN NEEDS COULD EASILY SUPPORT TWO FULL-RANGE FACTORIES. THERE HAD BEEN A STRONG PREFERENCE FOR US EQUIPMENT, AND THE NEGOTIATIONS WITH WESTINGHOUSE WERE SUSPENDED ONLY AFTER IT BECAME APPARENT THAT AMERICAN FIRMS WOULD BE UNABLE TO COME FORWARD WITH A SATISFACTORY OFFER.

7. UEKI STRESSED THAT BRAZIL REMAINED INTERESTED IN US-BRAZILIAN COOPERATION. THE AGREEMENT WITH THE FRG ONLY ENCOMPASSED THE "FIRST GENERATION" REACTOR. BRAZIL WAS PARTICULARLY INTERESTED IN THE HTGR PROGRAM OF GENERAL ATOMICS, WHICH WOULD USE THORIUM, AND IN THE FAST BREEDER, WHICH WOULD INCREASE BY 30 TIMES THE ENERGY EFFICIENCY OF EXISTING URANIUM SUPPLIES. HE NOTED THE ERDA RESEARCH AND DEVELOPMENT PROGRAM AND ASKED THE UNDER SECRETARY ABOUT THE POSSIBILITIES FOR BRAZILIAN PARTICIPATION.
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8. UEKI SAID BRAZIL WAS VERY INTERESTED IN BUYING URANIUM ENRICHMENT SERVICES FROM THE US, AND EXPRESSED DEEP CONCERN ABOUT THE DELAY IN A US RESPONSE ON THE TWO ENRICHED URANIUM CONTRACTS FOR ANGRA

II AND ANGRA III. FROM THE BRAZILIAN STANDPOINT, THE TIME HAD NOW COME DEFINITELY TO CLARIFY THE SITUATION SO THAT, HOWEVER RELUCTANTLY, BRAZIL COULD MAKE OTHER ARRANGEMENTS IF THIS SHOULD BE NECESSARY. THE TWO REACTORS INVOLVED VERY LARGE INVESTMENTS, AND BRAZIL COULD NOT CONTINUE WITH THE PRESENT UNCERTAIN SITUATION.

9. THE MINISTER STRESSED THAT PURCHASE OF FIRM CONTRACTS THROUGH BROKERS WAS NOT A SOLUTION. THE BASIC AGREEMENTS THEMSELVES REQUIRED AMENDMENT BECAUSE OF THE INCREASE IN THE CAPACITY FROM 700,000 WATTS TO 3 MEGAWATTS. HE WAS AWARE THAT THESE AMENDMENTS WOULD REQUIRE CONGRESSIONAL REVIEW AND HE WAS CONCERNED THAT, GIVEN RECENT REACTION TO THE FRG-BRAZILIAN AGREEMENT, THERE WOULD BE DIFFICULTY IN GETTING CONGRESSIONAL APPROVAL.

10. THE MINISTER SAID HE WISHED TO TAKE ADVANTAGE OF THE VISIT OF UNDER SECRETARY ROBINSON TO RAISE THIS PROBLEM DIRECTLY WITH HIM AND REQUEST AN EARLY DEFINITION OF THE US POSITION. IF THERE WAS A
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PROBLEM AND NO SOLUTION WAS IN SIGHT, BRAZIL WOULD LIKE TO KNOW AS SOON AS POSSIBLE SO THT IT COULD EXAMINE ITS ALERNATIVES. BRAZIL HOPED THAT THE FRG-BRAZILIAN AGREEMENT DID NOT AFFECT THE RELATIONSHIP WITH THE US. BUT IF BRAZIL SHOULD BE UNABLE TO BUY FROM THE US, ITS ALTERNATIVES WERE THE SOVIETS, EURODIF, AND URENCO. BRAZIL WOULD HAVE TO RULE OUT URENCO AS TOO UNCERTAIN AND AS BEING REALLY IN A DIFFERENT TIME FRAME THAN THE TWO REACTORS. THE SOVIETS HAD MADE AN OFFER AND WERE A SECURE SOURCE. HOWEVER, WHILE BRAZIL HAD AGREED TO BUY SOVIET TURBINES FOR HYDRO PROJECTS HE WOULD NOT BE HAPPY TO HAVE TO BUY URANIUM ENRICHMENT SERVICES FROM THE SOVIET UNION. HE WISHED TO REAFFIRM BRAZIL'S GOOD FAITH UNDER THE FRG-BRAZILIAN AGREEMENT.

11. THE UNDER SECRETARY SAID THAT BRAZIL WAS ENTITLED TO A CLARIFICATION AND THAT HE WOULD SEE TO IT THAT THE GOB WOULD BE ADVISED AS SOON AS A US POSITION IS ESTABLISHED. THE MATTER SHOULD BE HANDLED THROUGH EMBASSY CHANNELS. THE AMBASSADOR NOTED THAT REVISION OF THE CONTRACTS HAD BEEN THE OBJECT OF THE MOST CAREFUL STUDY IN WASHINGTON, AS HE HAD TOLD THE FOREIGN MINISTER, AND THAT WE HOPED TO PRESENT THE REVISION BEFORE TOO LONG. IN A SPIRIT OF CANDOR, IT HAD TO BE SAID THAT IT WOULD NOT BE REALISTIC TO EXPECT THAT THE FRG-BRAZILIAN ACCORD WAS NOT A COMPLICATING FACTOR. THE BRAZILIAN VIEWS

WERE WELL UNDERSTOOD IN WASHINGTON. ON THE OTHER HAND HE WAS NOT SURE THAT US CONCERNS HAD ALWAYS BEEN AS FULLY UNDERSTOOD IN BRAZIL. IF US COMPANIES HAD BEEN UNABLE TO COMPETE SUCCESSFULLY, THIS WAS NOT FOR COMMERCIAL REASONS BUT FOR REASONS OF THE HIGHEST POLICY.

12. WITH RESPECT TO MINERALS, THE MINISTER SAID BRAZIL HAD WORRIES ABOUT THE \$2 BILLION CARAJAS IRON ORE PROJECT AND THE PLANS OF THE US STEEL COMPANY. ACCORDING TO THE INITIAL PLAN, THE PROJECT SHOULD NOW BE UNDER WAY BUT BECAUSE OF THE WORLD STEEL SITUATION, AND IN LIGHT OF THE RECESSION AND US STEEL'S PROBLEMS IN VENEZUELA, US STEEL HAD BEEN DELAYING THE START OF THE PROJECT. HE COMMENTED THAT THIS SERVED THE USG'S INTERESTS BUT NOT THOSE OF THE GOB.
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UEKI SAID THERE WOULD BE A CRITICAL MEETING ON THE CARAJAS PROJECT WITH US STEEL ON JULY 23, WHICH HE WAS SURE WOULD REACH A SATISFACTORY SOLUTION. THE AMBASSADOR SAID HE HAD MET WITH US STEEL AND THAT THE COMPANY HAD ASSURED HIM THEY WERE NOT IN ANY WAY TRYING TO DELAY THE CARAJAS PROJECT. ACCORDING TO THE COMPANY, THE DELAYS WERE ATTRIBUTABLE TO CORPORATE CHANGES DEMANDED BY CVRD. THE AMBASSADOR ADDED THAT HE WAS PLEASED BY THE MINISTER'S BELIEF THAT THE JULY 23 MEETING WOULD BE SUCCESSFUL.
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